

## RATING REPORT

### First Paramount Modaraba

**REPORT DATE:**

January 8, 2018

**RATING ANALYSTS:**

Muniba Khan

[muniba.khan@jcrvis.com.pk](mailto:muniba.khan@jcrvis.com.pk)

**RATING DETAILS**

	Latest Rating	Previous Rating
Rating Category	Entity	Entity
Entity	BBB/A-3	BBB/A-3
Rating Date	Dec 29, '17	Dec 30, '16
Rating Outlook	Stable	Stable

**COMPANY INFORMATION**

Incorporated in 1993	External Auditors: Deloitte Yousuf Adil, Chartered Accountants
Public Listed Company	Chairman: Mr. Tanveer Ahmed Magoon
Key Certificate holders (with stake 5% or more):	Chief Executive Officer: Mr. Wajih Hassan
<i>General Public (Local) – 72.2%</i>	
<i>Associated Companies – 14.6%</i>	

**APPLICABLE METHODOLOGY(IES)**

JCR-VIS Entity Rating Criteria: Non-Bank Financial Companies <http://jcrvis.com.pk/Images/NBFC.pdf>

JCR-VIS Entity Rating Criteria: Modaraba Rating Scale <http://www.jcrvis.com.pk/images/JCR-Mod.pdf>

## First Paramount Modaraba (FPM)

### OVERVIEW OF THE INSTITUTION

*First Paramount Modaraba (FPM) was established under the modaraba companies and modaraba (Floatation and Control) ordinance, 1980. FPM is a multipurpose, perpetual and multidimensional Modaraba managed by Paramount Investments Limited.*

### RATING RATIONALE

First Paramount Modaraba (FPM), managed by Paramount Investments Limited (PIL) is primarily engaged in three key business activities including murabaha and musharakah financing along with deployment in in house ventures. Majority shareholding of the company is vested with general public.

**Financing Portfolio:** Given the six-month long restriction imposed by the regulator on raising additional CoMs during FY17, financing portfolio (net of deferred income) of FPM reduced to Rs. 233.3m (FY16: Rs. 261.5m) at end-FY17. Murabaha financing continues to represent the largest chunk of the portfolio; murabaha contributes more than two-thirds of total financings. Although top ten clients represent 55.5% of the murabaha portfolio, a single exposure does not exceed more than 10% of its equity base. Nonetheless, quality of the financing portfolio must be maintained in order to ensure sustainability and growth in earnings. Management anticipates growth in the financing portfolio once equity injection is completed. During 2017, infection levels of the company were reported at 3.5% (FY16: 1.3%) and 1.9% (FY16: 0.3%) on a gross and net basis, respectively. Increase in infection was on account of non-repayment of one client. As of December 2017, all outstanding dues against this client were settled.

**Profitability:** Despite a lower financing base, revenue base of the company increased on the back of proceeds from its in-house petrochemicals venture. Nevertheless, growth in the top-line was outweighed by increase in its expense base. Subsequently, profitability levels of the company declined to Rs. 7.2m (FY16: Rs. 13.0m) in the period ending June 30, 2017. FPM's also sold its loss making weaving unit during FY17. Going forward, management projects its in-house ventures to continue supporting its profitability levels. During the outgoing year, the company also ventured into a consultancy business which is expected to pick up pace in the coming years.

**Funding:** FPM only mobilizes funds through Certificate of Musharaka (CoMs), cost of which compares favorably to secondary market borrowings. Cost on CoMs varies from 6% to 8% depending on the tenor of the instrument. Top 10 CoM holders represent a significant proportion of total funds raised through CoMs at end-FY17. Moreover, liquidity profile has weakened on the back of limited liquid assets carried on balance sheet.

**Capitalization:** Net equity stood at Rs. 205.4m (FY17: Rs. 212.6m; FY16: Rs. 215.8m) at end-September 2017. Capitalization levels declined largely on account of sizeable dividends during the period. With lower equity, leverage indicators have trended upwards during FY17. In order to enhance its capitalization strength, FPM plans to inject Rs. 70m, half of the paid up capital, as equity during FY18; developments in this regard are yet to materialize. This funding will be deployed towards growth in its financing portfolio. The modaraba's ability to maintain portfolio quality indicators and improve profitability while maintaining leverage within prudent limits will continue to be monitored by JCR-VIS.

**First Paramount Modaraba (FPM)**
**Appendix I**

<b>FINANCIAL SUMMARY</b>				
	<i>(amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>	<b>Jun 30, 2017</b>	<b>Jun 30, 2016</b>	<b>Jun 30, 2015</b>	<b>Jun 30, 2014</b>
Total Financing*	233.3	261.5	272.0	206.9
Total Assets	465.9	510.4	439.9	326.4
Certificate of Musharakahs	170.7	190.7	175.4	93.9
Net Worth	212.6	215.8	206.4	179.5
<b>INCOME STATEMENT</b>				
	<b>Jun 30, 2017</b>	<b>Jun 30, 2016</b>	<b>Jun 30, 2015</b>	<b>Jun 30, 2014</b>
Operating Income	202.2	145.6	72.5	55.2
Net (Provisioning) / Reversal	(2.7)	0.5	(0.3)	(0.3)
Operating Expenses	178.1	114.2	50.8	35.6
Profit (Loss) Before Tax from continuing operations	7.2	13.9	10.2	12.4
Profit (Loss) After Tax from continuing operations	7.2	13.9	10.2	12.4
Loss from discontinued operations	-	(0.9)	(0.7)	-
Profit after tax	7.2	13.0	10.2	12.4
<b>RATIO ANALYSIS</b>				
	<b>Jun 30, 2017</b>	<b>Jun 30, 2016</b>	<b>Jun 30, 2015</b>	<b>Jun 30, 2014</b>
Gross Infection (%)	3.5	1.3	1.4	6.7
Provisioning Coverage (%)	46.4	76.5	77.3	
Net Infection (%)	1.9	0.3	0.4	5.6
ROAA (%)	1.5	2.8	2.7	7.3
ROAE (%)	3.4	6.3	5.3	4.3
Debt Leverage (x)	1.2	1.1	0.8	0.7
Current Ratio (x)	5.2	4.2	3.2	3.7

\*Net of deferred income

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

**Medium to Long-Term**

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

**Short-Term**

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES				Appendix III	
<b>Name of Rated Entity</b>	First Paramount Modaraba				
<b>Sector</b>	Modaraba				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	12/29/2017	BBB	A-3	Stable	Reaffirmed
	12/30/2016	BBB	A-3	Stable	Maintained
	12/29/2015	BBB	A-3	Positive	Reaffirmed
	12/26/2014	BBB	A-3	Positive	Maintained
	1/28/2013	BBB	A-3	Stable	Reaffirmed
	8/8/2011	BBB	A-3	Stable	Upgrade
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
<b>Probability of Default</b>	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2018 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				